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1955 and \$4,000 on the last day of 1954. The beneficiary had taxable income (after deductions) from other sources of \$5,000 for 1956, \$10,000 for 1955, and \$10,000 for 1954. The beneficiary's tax liability for 1956 is \$4,730 determined as follows:

<i>Year 1956</i>	
Tax on \$15,000 (taxable income including section 666 amounts) .....	\$4,730
Tax on \$5,000 (taxable income excluding section 666 amounts) .....	1,100
Tax attributable to section 666 amounts	3,630
<i>Year 1955</i>	
Tax on \$16,000 (taxable income including section 666 amounts) .....	\$5,200
Tax on \$10,000 (taxable income excluding section 666 amounts) .....	2,640
Tax attributable to section 666 amounts	2,560
<i>Year 1954</i>	
Tax on \$14,000 (taxable income including section 666 amounts) .....	\$4,260
Tax on \$10,000 (taxable income excluding section 666 amounts) .....	2,640
Tax attributable to section 666 amounts	1,620

(2) Inasmuch as the tax of \$3,630 attributable to the section 666 amounts as computed at 1956 rates is less than the aggregate of the taxes of \$4,180 (\$2,560 plus \$1,620) determined for the preceding taxable years the amount of \$3,630 is added to the tax (\$1,100) computed for 1956 without including the section 666 amounts.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 737, Jan. 17, 1969]

§ 1.668(b)-1 Credit for taxes paid by the trust.

(a) The taxes imposed on a complex trust for a taxable year which would not have been payable by the trust if amounts deemed under section 666 to have been distributed in the year had in fact been distributed in the year are not allowable as a refund to the trust but are allowable as a credit against the tax of the beneficiaries to whom the amounts described in section 666(a) are distributed.

(b) The credit to which a beneficiary is entitled under section 668(b) is allowed for the taxable year in which the accumulation distribution (to which the credit relates) is required to be included in the gross income of the beneficiary. Any excess over the total tax liability of the beneficiary is treated as an overpayment of tax by the beneficiary.

(c) The beneficiary is entitled to a portion of the credit described in paragraph (a) of this section in the ratio which the amount of the accumulation distribution to him bears to the accumulation distributions to all the beneficiaries.

§ 1.668(b)-2 Illustration of the provisions of subpart D.

The provisions of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code, other than provisions relating to a foreign trust created by a U.S. person, may be illustrated by the following example:

*Example. (a) Facts.* (1) Under the terms of a trust instrument, one-half of the trust income is required to be distributed currently to beneficiary A. The trustee may in his discretion accumulate the balance of the income of the trust or he may make distributions to B out of income or corpus. The trust is to terminate upon the death of A and the corpus is to be distributed to B. Capital gains are allocable to corpus. All of the expenses of the trust are charges against income. The trust instrument provides for a reserve for depreciation, so that depreciation is deductible in computing distributable net income. The trust and both beneficiaries report on the calendar year basis. The trust had long-term capital gains of \$20,000 for 1954, and \$10,000 for 1955, which were allocated to corpus. The distributable net income of the trust as determined under section 643(a) for 1954, 1955, 1956, and 1957 is deemed to consist of the following items of income:

	Dividends	Rents	Interest (taxable)	Interest (exempt)	Total
1954	\$15,000	\$20,000	\$10,000	\$5,000	\$50,000
1955	10,000	15,000	10,000	5,000	40,000
1956	10,000	20,000	15,000	5,000	50,000
1957	10,000	15,000	15,000	5,000	45,000

(2) One-half (\$7,500) of the dividends for 1954 was received by the trust on or before July 31, 1954, and the balance was received after that date.

(3) The following distributions were made by the trustee to A and B during the taxable years 1954 through 1957:

	A	B
1954 .....	\$25,000	None
1955 .....	20,000	None
1956 .....	25,000	\$45,000
1957 .....	22,500	29,550

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(b) *Distributions to A.* A is deemed to have received one-half of each item of income entering into the computation of distributable net income as shown in paragraph (a)(1) of this example. See §1.662(a)-2 for rules for the treatment of currently distributable income in the hands of the beneficiary.

(c) *Tax liability of the trust—(1) 1954.* (i) The tax liability of the trust for the taxable year 1954 is \$13,451, computed as follows:

Distributable net income under section 643(a) (paragraph (a)(1) of this example) .....	\$50,000
Less amounts not includible in gross income:	
Tax-exempt interest .....	\$5,000
Dividend exclusion .....	50
	5,050
Distributable net income as adjusted .....	44,950
Add: Capital gains (long-term) .....	20,000
Total .....	64,950
Deductions:	
Distributions to A .....	\$22,475
Capital gain deduction .....	\$10,000
Personal exemption .....	100
	32,575
Taxable income .....	32,375
Alternative tax .....	13,601
Dividend received credit .....	150
Tax liability .....	13,451

(ii) See paragraph (b) of this example for character of income deemed distributed to A and section 661 for rules for computing the amount deductible by a trust for distributions to beneficiaries. Inasmuch as one-half of the dividends of the trust is deemed to be distributed to A, \$25 of such distribution is deemed to be made from the dividend exclusion of \$50, and the balance from dividends included in the gross income of the trust (that is, since the year 1954 is involved, \$3,725 from dividends received on or before July 31, 1954, and \$3,750 from dividends received after July 31, 1954). The trust is entitled to a dividend received credit attributable to the dividends of \$3,750 received after July 31, 1954, which were not distributed to any beneficiary during the taxable year.

(2) *1955.* (i) The tax liability of the trust for the taxable year 1955 is \$8,189, computed as follows:

Distributable net income under section 643(a) (paragraph (a)(1) of this example) .....	\$40,000
Less amounts not includible in gross income:	
Tax-exempt interest .....	\$5,000
Dividend exclusion .....	50
	5,050
Distributable net income as adjusted .....	34,950
Add: Capital gains (long-term) .....	10,000
Total .....	44,950
Deductions:	
Distributions to A .....	\$17,475
Capital gain deduction .....	5,000
Personal exemption .....	100

	22,575
Taxable income .....	22,375
Alternative tax .....	8,388
Dividend received credit .....	199
	8,189

(ii) See paragraph (b) of this example for character of income deemed distributed to A and section 661 for rules for computing the amount deductible by a trust for distributions to beneficiaries. Inasmuch as one-half (\$4,975) of the dividends of \$9,950 (\$10,000 less dividend exclusion of \$50) included in the gross income of the trust is deemed distributed to A, the trust is entitled to a dividend received credit with respect to the dividends of \$4,975 which were not distributed to any beneficiary during the taxable year.

(3) *1956 and 1957.* The trust had no tax liability for the taxable years 1956 and 1957 since all of its income was distributed during such years.

(d) *Accumulation distributions.* (1) Accumulation distributions of \$20,000 and \$7,050, as defined in section 665(b), were made to B during the years 1956 and 1957, respectively, computed as shown below:

	1956	1957
Distributable net income of the trust as computed under section 643(a)	\$50,000	\$45,000
Less: Income currently distributable to A .....	25,000	22,500
Balance of income .....	25,000	22,500
Other amounts distributed to B .....	45,000	29,550
Accumulation distributions to B .....	20,000	7,050

(2) B is deemed to have received one-half of each item of income entering into the computation of distributable net income (shown in paragraph (a)(1) of this example) for the years 1956 and 1957.

(3) The accumulation distribution for 1956 must first be allocated to the preceding taxable years as provided in section 666. After the application of the provisions of subpart D to the 1956 accumulation distribution and to the undistributed net incomes of the preceding taxable years, a similar allocation must be made of the 1957 accumulation distribution.

(e) *Throwback of 1956 accumulation distribution to 1955.* The accumulation distribution of \$20,000 for 1956 must be allocated to the first preceding taxable year 1955, before allocation is made to the second preceding taxable year 1954.

(1) *1955 Undistributed net income.* (i) The undistributed net income of the trust for 1955, determined as of the close of 1955, is \$12,885, computed as follows:

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Distributable net income as computed under section 643(a) (paragraph (a)(1) of this example)	\$40,000
Less:	
Distributions to A .....	\$20,000
Taxes imposed on the trust .....	7,115
	27,115
Undistributed net income as of the close of 1955 .....	12,885

(ii) The taxes imposed on the trust of \$7,115 are that portion of the taxes paid by the trust for 1955 which is attributable to the undistributed portion of distributable net income included in the taxable income of the trust (the "balance" in the computation below) and is determined as follows:

Taxable income (paragraph (c)(2)(i) of this example) .....	\$22,375
Capital gains allocable to corpus .....	\$10,000
Less:	
Capital gain deduction .....	\$5,000
Personal exemption .....	100
	5,100
Portion of taxable income allocable to corpus .....	4,900
Balance .....	17,475
Total taxes paid by the trust .....	8,189
Taxes on income (\$4,900) allocable to corpus .....	1,074
Taxes imposed on the trust (section 665(c)) .....	7,115

(iii) The amount of \$1,074 is the taxes which the trust would have paid for 1955 had all of the distributable net income been distributed during the year.

(2) *Allocation of 1956 accumulation distribution to the preceding taxable year 1955.* The portion of the 1956 accumulation distribution which is deemed under section 666(a) to be distributed to B on the last day of 1955 (the first preceding taxable year) is \$12,885, an amount equal to the undistributed net income for 1955. An additional amount equal to the taxes imposed on the trust (\$7,115) is, under section 666(b), also deemed to be distributed to B on the last day of 1955. Thus, a total of \$20,000 (\$12,885 plus \$7,115) is deemed to be distributed to B on December 31, 1955, by reason of the allocation of the 1956 accumulation distribution to the first preceding taxable year. See paragraph (h) of this example for the treatment of the amount of \$20,000 in the hands of B.

(3) *Character of amounts deemed distributed.* Inasmuch as one-half of the 1955 distributable net income of the trust as determined under section 643(a) was currently distributable to A and the balance of such income is deemed under section 666 to be distributed to B on December 31, 1955, the distribution to B is deemed to consist of one-half of each item of income entering into the computation of the 1955 distributable net income; that is, dividends of \$5,000, rents of \$7,500, taxable interest of \$5,000, and tax-exempt interest of \$2,500.

(4) *Credit for taxes paid by the trust.* The amount of the taxes for the year 1955 which may not be refunded or credited to the trust under section 667 and which is allowed as a credit against the tax of B for 1956 under section 668(b) is \$7,115. See also paragraph (h)(3) of this example.

(5) *Effect of application of provisions of subpart D to the year 1955.* After the allocation of the 1956 accumulation distribution to the preceding taxable year 1955, the undistributed portion of the distributable net income, the undistributed net income, and the taxes imposed on the trust for 1955 are zero. The portion of the 1956 accumulation distribution which is unabsorbed by the 1955 undistributed net income is \$7,115, determined as follows:

1956 accumulation distribution (paragraph (d)(1) of this example) .....	\$20,000
Less: Amount allocable to 1955 .....	12,885
Balance allocable to second preceding taxable year 1954 .....	7,115

(f) *Throwback of 1956 accumulation distribution to 1954.* The unabsorbed portion of the 1956 accumulation distribution of \$7,115 is allocable to the second preceding taxable year 1954 and is treated under section 666 as a distribution to B on the last day of such year.

(1) *1954 Undistributed net income.* (i) The undistributed net income of the trust for 1954, determined as of the close of 1954, is \$14,155, computed as follows:

Distributable net income as computed under section 643(a) (paragraph (a)(1) of this example) ..	\$50,000
Less:	
Distributions to A .....	\$25,000
Taxes imposed on the trust .....	10,845
	35,845
Undistributed net income as of the close of 1954 .....	14,155

(ii) The taxes imposed on the trust of \$10,845 are that portion of the taxes paid by the trust for 1954 which is attributable to the undistributed portion of distributable net income included in the taxable income of the trust (the "balance" in the computation below in this subdivision) and is determined as follows:

Taxable income (paragraph (c)(1)(i) of this example) .....	\$32,375
Capital gains allocable to corpus .....	\$20,000
Less:	
Capital gain deduction .....	\$10,000
Personal exemption .....	100
	10,100
Portion of taxable income allocable to corpus .....	9,900
Balance .....	22,475
Total taxes paid by the trust .....	13,451
Taxes on income (\$9,900) allocable to corpus .....	2,606
Taxes imposed on the trust (section 665(c)) .....	10,845

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(iii) The amount of \$2,606 is the taxes which the trust would have paid for 1954 had all of the distributable net income been distributed during that year.

(2) *Allocation of 1956 accumulation distribution to the second preceding taxable year 1954.* Since the unabsorbed portion of the 1956 accumulation distribution of \$7,115 is less than the 1954 undistributed net income of \$14,155, the trust is deemed under section 666(c) to have also distributed an additional amount (\$5,451) equal to a pro rata portion (7,115/14,155×\$10,845) of the taxes imposed on the trust for 1954. Thus, a total of \$12,566 (\$7,115 plus \$5,451) is deemed to be distributed to B on December 31, 1954, by reason of the throw-back of the 1956 accumulation distribution. See paragraph (h) of this example for the treatment of the amount of \$12,566 in the hands of B.

(3) *Character of amounts deemed distributed to B.* The amount of \$12,566 which, under section 666, is deemed to be distributed to B on December 31, 1954, is deemed to be composed of the following items of income of the trust: Dividends, \$3,770 (15,000/50,000×\$12,566); rents, \$5,026 (20,000/50,000×\$12,566); taxable interest, \$2,513 (10,000/50,000×\$12,566); and tax-exempt interest, \$1,257 (5,000/50,000×\$12,566). One-half of the dividends of \$3,770 is considered as distributed from the dividends received by the trust on or before July 31, 1954, of which \$13 (3,770/15,000×\$50) is deemed distributed from the dividends excluded under section 116, and the other half as distributed from the dividends received after July 31, 1954. Thus, of the total of \$12,566 deemed distributed to B, \$11,296 is considered as made from income included in the gross income of the trust and \$1,270 from non-taxable income of the trust.

(4) *Credit for taxes paid by the trust.* The amount of the taxes for the year 1954 which may not be refunded or credited to the trust under section 667 and which is allowed as a

credit against the tax of B for 1956 under section 668(b), because of the allocation of the 1956 accumulation distribution to 1954, is \$5,401, computed as follows:

Taxable income of the trust as of the close of 1954 (paragraph (c)(1) of this example) .....	\$32,375
Less: Amount deemed distributed to B under section 666 from the taxable income of the trust ....	11,296
Taxable income adjusted as of the close of 1956 .....	21,079
(Taxes on \$21,079 (alternative tax) .....	\$8,050
Taxes on income allocable to corpus (subparagraph (1)(ii) of this paragraph) .....	\$2,606
Taxes imposed on the trust determined as of the close of 1956 .....	5,444
Taxes imposed on the trust determined as of the close of 1954 .....	\$10,845
Taxes imposed on the trust determined as of the close of 1956 .....	5,444
Amount of taxes allowed as a credit to B under section 668(b) .....	5,401

(5) *Effect of application of provisions of subpart D to the year 1954.* (i) The undistributed portion of the distributable net income of the trust for the year 1954, determined as of the close of 1956, is \$12,434, computed as follows:

Distributable net income (section 643(a)) .....	\$50,000
Less:	
Amount currently distributable to A .....	\$25,000
Amount deemed distributed to B under section 666 .....	12,566
Undistributed portion of distributable net income as of the close of 1956 .....	12,434

(ii) The amount of \$12,434 is deemed to consist of dividends of \$3,730, rents of \$4,974, taxable interest of \$2,487, and tax-exempt interest of \$1,243, determined as follows:

	Dividends	Rents	Interest (taxable)	Interest (exempt)	Total
Trust income .....	\$15,000	\$20,000	\$10,000	\$5,000	<sup>1</sup> \$50,000
Distributions:					
To A .....	7,500	10,000	5,000	2,500	<sup>2</sup> 25,000
To B .....	3,770	5,026	2,513	1,257	<sup>3</sup> 12,566
Total .....	11,270	15,026	7,513	3,757	37,566
Balance .....	3,730	4,974	2,487	1,243	12,434

<sup>1</sup> See paragraph (a)(1) of this example.  
<sup>2</sup> See paragraph (b) of this example.  
<sup>3</sup> See paragraph (f)(3) of this example.

(iii) The undistributed net income of the trust for 1954, determined as of the close of 1956, is \$6,990, computed as follows:

Undistributed portion of distributable net income as of the close of 1956 .....	\$12,434
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Less: Taxes imposed on the trust determined as of the close of 1956 (subparagraph (4) of this paragraph) .....	5,444
Undistributed net income as of the close of 1956 .....	6,990

(g) *Throwback of 1957 accumulation distribution.* Inasmuch as all of the income of the trust for the first preceding taxable year 1956 was distributed during such year and the trust had no undistributed net income for the second preceding taxable year 1955 after the application of subpart D to the accumulation distribution made during 1956, the 1957 accumulation distribution of \$7,050 is allocable to the third preceding taxable year 1954. See paragraph (d)(1) of this example for computation of the accumulation distribution.

(1) *Allocation of 1957 accumulation distribution to the preceding taxable year 1954.* The portion of the 1957 accumulation distribution which is deemed under section 666(a) to be distributed to B on the last day of 1954 is \$6,990, an amount equal to the undistributed net income of the trust for 1954, determined as of the close of 1956. An additional amount equal to the taxes imposed on the trust (\$5,444), determined as of the close of 1956, is under section 666(b) also deemed to be distributed to B on the last day of 1954. See paragraph (f) (4) and (5) of this example. Thus, a total of \$12,434 (\$6,990 plus \$5,444) is deemed to be distributed to B on December 31, 1954, by reason of the allocation of the 1957 accumulation distribution to the taxable year 1954. See paragraph (j) of this example for the treatment of the amount of \$12,434 in the hands of B.

(2) *Character of amounts deemed distributed.* Inasmuch as the balance of the 1954 distributable net income of the trust is deemed under section 666 to be distributed to B on December 31, 1954, the distribution is deemed to consist of dividends of \$3,730, rents of \$4,974, taxable interest of \$2,487, and tax-exempt interest of \$1,243. See paragraph (f)(5)(ii) of this example.

(3) *Credit for taxes paid by the trust.* The amount of taxes for the year 1954 which may

not be refunded or credited to the trust under section 667 and which is allowed as a credit against the tax of B under section 668(b) is \$5,444, the amount of taxes imposed on the trust determined as of the close of 1956. See paragraph (f)(4) of this example.

(4) *Effect of application of provisions of subpart D to the year 1954.* After the allocation of the 1957 accumulation distribution to the preceding taxable year 1954, the undistributed portion of the distributable net income, the undistributed net income, and the taxes imposed on the trust for 1954 are zero. The balance of \$60 (\$7,050 less \$6,990) of the 1957 accumulation distribution remaining after the allocation of the accumulation distribution to the year 1954, may not be allocated to the year 1953 since that year is not subject to the provisions of the Internal Revenue Code of 1954.

(h) *Determination of B's tax liability; taxable year 1956—(1) Amount of trust income includible in gross income.* (i) Of the amount of \$45,000 distributed by the trust to B during the taxable year 1956, \$25,000 is treated as a distribution out of trust income for that year within the meaning of section 662(a)(2), and \$20,000 as an accumulation distribution within the meaning of section 665(b) (see paragraph (d) of this example). However, \$12,885 plus taxes of \$7,115 is deemed distributed to B on December 31, 1955, and \$7,115 plus taxes of \$5,451 on December 31, 1954, under section 666 by reason of the accumulation distribution made during 1956, and these amounts are includible in B's gross income for 1956 to the extent that they would have been includible in his gross income under section 662 (a)(2) and (b) for 1955 and 1954, respectively, had they been distributed on the last day of those years.

(ii) The amounts distributed to B out of trust income for the year 1956, and the amounts deemed distributed out of income for the preceding taxable years 1955 and 1954 have the following character for the purpose of determining the amount includible in B's gross income for 1956:

Year	Dividends	Rents	Interest (taxable)	Interest (exempt)	Total
1956 .....	\$5,000	\$10,000	\$7,500	\$2,500	<sup>1</sup> \$25,000
1955 .....	5,000	7,500	5,000	2,500	<sup>2</sup> 20,000
1954 .....	3,770	5,026	2,513	1,257	<sup>3</sup> 12,566
Total .....	13,770	22,526	15,013	6,257	57,566

<sup>1</sup> See paragraph (d)(2) of this example.  
<sup>2</sup> See paragraph (e)(3) of this example.  
<sup>3</sup> See paragraph (f)(3) of this example.

Thus, B will include in gross income for 1956 dividends of \$13,770 (subject to the dividend exclusion), rents of \$22,526, and taxable inter-

est of \$15,013, and will exclude the tax-exempt interest of \$6,257.

(2) *Computation of tax.* (i) For the purpose of computing B's tax liability, it is assumed

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that he was single during the taxable years 1954, 1955, and 1956, and that his taxable income (derived from salary) for each of the years 1954 and 1955 amounted to \$13,400 on which a tax of \$4,002 was paid for each year. It is also assumed that his income (other than distributions from the trust) for 1956 was \$15,000 derived from salary, and he had allowable deductions of \$10,600, which included the deduction for personal exemption.

(ii) The computation of the tax for the taxable year 1956 attributable to the section 666 amounts which are included in B's gross income for such year, as provided in paragraph (a)(1) of § 1.668(a)-4, is as follows:

	(1) Section 666 amounts excluded	(2) Section 666 amounts included
Salary .....	\$15,000	\$15,000
Income from trust:		
Dividends (\$50 excluded) .....	4,950	13,720
Rents .....	10,000	22,526
Taxable interest .....	7,500	15,013
Total .....	37,450	66,259
Less: Allowable deductions .....	10,600	10,600
Taxable income .....	26,850	55,659
Total tax .....	11,267	31,064
Less: Dividend received credit .....	198	475
Tax liability .....	\$11,069	30,589
Tax on income from which section 666 amounts are excluded .....		11,069
1956 tax attributable to section 666 amounts ...		19,520

Only that portion of the dividends received by the trust after July 31, 1954, and deemed distributed to B under section 666, on the last day of such year is included in computing the dividend received credit shown in column (2). See paragraph (f)(3) of this example.

(iii) The computation of the taxes for the preceding taxable years attributable to the section 666 amounts which are deemed distributed by the trust on the last day of these years, as provided in paragraph (a)(2) of § 1.668(a)-4, is as follows:

	Preceding taxable years	
	First 1955	Second 1954
Taxable income previously reported .....	\$13,400	\$13,400
Section 666 amounts:		
Dividends (\$50 excluded) .....	4,950	3,720
Rents .....	7,500	5,026
Taxable interest .....	5,000	2,513
Taxable income as adjusted .....	30,850	24,659
Total tax .....	13,747	9,949

	Preceding taxable years	
	First 1955	Second 1954
Less: Dividend received credit .....	198	75
Balance of tax .....	13,549	9,874
Tax liability .....	4,002	4,002
Tax attributable to section 666 amounts .....	9,547	5,872

Only that portion (\$1,885) of the dividends received by the trust after July 31, 1954, and deemed distributed under section 666 on the last day of that year, is included in computing the dividend received credit of \$75 for the year 1954. See paragraph (f)(3) of this example.

(iv) Inasmuch as the aggregate of the taxes of \$15,419 (\$9,547 plus \$5,872) attributable to the section 666 amounts as determined for the preceding taxable years is less than the tax of \$19,520 determined for the taxable year 1956, the amount of \$15,419 shall be added to the tax computed for 1956 without including the section 666 amounts. Thus, B's tax liability for 1956 is \$26,488 (\$11,069 plus \$15,419).

(3) *Credits against the tax.* B is allowed under section 668(b) a credit of \$12,516 (\$5,401 for 1954 and \$7,115 for 1955) against his 1956 tax liability for the taxes paid by the trust for the preceding taxable years and which may not be refunded or credited to the trust under section 667. See paragraphs (e)(4) and (f)(4) of this example.

(i) [Reserved]

(j) *Taxable year 1957—(1) Amount of trust income includible in gross income.* (i) Of the amount of \$29,550 distributed by the trust to B during the taxable year 1957, \$22,500 is treated as a distribution out of trust income for that year within the meaning of section 662(a)(2), and \$7,050 as an accumulation distribution within the meaning of section 665(b) (see paragraph (d) of this example). However, \$6,990 plus taxes of \$5,444 is deemed distributed to B on December 31, 1954, under section 666 by reason of the accumulation distribution made during 1957, and that amount is includible in B's gross income for 1957, to the extent that it would have been includible in his gross income under section 662 (a)(2) and (b) for 1954, had it been distributed on the last day of that year.

(ii) The amounts deemed distributed to B out of trust income for the year 1957 and the preceding taxable year 1954 are deemed to have the following character for the purpose of determining the amount includible in B's gross income for 1957:

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Year	Dividends	Rents	Interest (taxable)	Interest (exempt)	Total
1957	\$5,000	\$7,500	\$7,500	\$2,500	<sup>1</sup> \$22,500
1954	3,730	4,974	2,487	1,243	<sup>2</sup> 12,434
Total	8,730	12,474	9,987	3,743	34,934

<sup>1</sup> See paragraph (d)(2) of this example.  
<sup>2</sup> See paragraph (g)(2) of this example.

Thus, B will include in gross income for the year 1957 dividends of \$8,730 (subject to the dividend exclusion), rents of \$12,474, and taxable interest of \$9,987 and will exclude the tax-exempt interest of \$3,743.

(2) *Computation of tax.* (i) For the purpose of computing B's tax liability for 1957, it is assumed that he was single for the entire year and had income (other than distributions from the trust) of \$15,000 from salary. Also, he had allowable deductions of \$8,100, which included the deductions for personal exemption.

(ii) The computation of the tax for the taxable year 1957 attributable to the section 666 amounts which are included in B's gross income for that year, as provided in paragraph (a)(1) of § 1.668(a)-4, is as follows:

	Section 666 amounts excluded	Section 666 amounts included
Salary	\$15,000	\$15,000
Trust income:		
Dividends (\$50 excluded)	4,950	8,680
Rents	7,500	12,474
Taxable interest	7,500	9,987
Total	34,950	46,141
Less: Allowable deductions	8,100	8,100
Taxable income	26,850	38,041
Total tax	11,267	18,388
Less: Dividends received credit	198	275
Tax liability	11,069	18,113
Tax on income from which section 666 amounts are excluded		11,069
1957 tax attributable to section 666 amounts		7,044

See explanation following computation in paragraph (h)(2)(ii) of this example with respect to the computation of the dividend received credit on dividends received by the trust in 1954.

(iii) The amount of tax, computed at 1954 rates, attributable to the section 666 amounts which are deemed to have been distributed by the trust on the last day of 1954, is \$6,939, computed as follows:

1954 taxable income as adjusted (paragraph (h)(2)(iii) of this example)	\$24,659
Section 666 amounts:	
Dividends	3,730
Rents	4,974

Taxable interest	2,487
Taxable income as adjusted	35,850
Total tax	16,963
Less: Dividends received credit	150
Balance of tax	16,813
Tax liability for 1954	\$4,002
Tax attributable to 1956 accumulation distribution this example)	5,872
	9,874
Tax attributable to the section 666 amounts distributed in 1957	6,939

Only that portion (\$3,750) of the dividends received by the trust after July 31, 1954, and deemed distributed under section 666 on the last day of that year, is included in computing the dividend received credit of \$150. See paragraphs (f)(3) and (g)(2) of this example.

(iv) Inasmuch as the tax of \$6,939 attributable to the section 666 amounts as determined for the preceding taxable year 1954 is less than the tax of \$7,044 attributable to these amounts for the year 1957, the amount of \$6,939 shall be added to the tax computed for 1957 without including in gross income the section 666 amounts. Thus, B's tax liability for 1957 is \$18,008 (\$11,069 plus \$6,939).

(3) *Credit against the tax.* B is allowed under section 668(b) a credit of \$5,444 against his 1957 tax liability for the balance of the taxes paid by the trust for 1954 and which may not be refunded or credited to the trust under section 667. See paragraph(g)(3) of this example.

(Sec. 669(a) as amended by sec. 331(a), Tax Reform Act 1969 (83 Stat. 592))

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 738, Jan. 17, 1969]

§ 1.669(a)-1A Amount allocated.

(a) *In general.* After a trust has distributed all of its undistributed net income, the rules concerning the treatment of capital gain distributions (prescribed under section 669) may become applicable to an accumulation distribution. This section prescribes rules to determine from which years capital gain distributions are considered to be made. For the definition of "capital